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SHOULD MAXIMUM PRICES BE FIXED?

BY

W. C. CLARK

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SHOULD MAXIMUM PRICES BE FIXED?

SIXTY years ago it was said that if you could teach a parrot to repeat the words "supply and demand" you would have a first rate economist. The gibe was not wholly undeserved, for the law of supply and demand had been made to work overtime and as currently stated was meaningless. Economists have long since atoned for the fault and few to-day are blind worshippers of the old laissez-faire policy. Since the war, however, the cheap trick of scoffing at supply and demand has become the fad with a certain class of newspaper and politician who fail to understand the law or indeed the nature of any economic law, forgetting apparently that such a law is a mere statement of observed tendency rather than the arbitrary decree of any group of reactionary economists. To-day the economist who fails to acknowledge the "repeal" or breakdown of this old formula is ridiculed in the press for teaching "untimely economic doctrine," and at once forfeits all chances of becoming Food Controller.

In view of such popular misunderstandings, a word as to the explanation of prices may not be out of place. Value is a rate of exchange between goods; a good has value in proportion to its power to purchase other goods in the market. Price is merely value expressed in terms of money. The old formula that price was determined by supply and demand explains little, if anything, by itself. No light is thrown upon the problem of prices until we explain the nature of supply and demand, the forces acting behind and determining them, and the precise way in which they do operate on prices. Demand is popularly supposed to mean desire for a good; as some one has shown, however, the street urchin with his nose glued to the window of the candy store represents desire enough for the sugar-stick but no demand—until that desire is backed up by ability and willingness to pay the penny. Demand for a good, therefore, is the amount that will be bought at a price, or rather at each of a series of prices. Similarly dependent on price, the supply of any commodity is the amount that will be offered at each of a series of prices. Thanks to the existing inequality of incomes and to the diminishing satisfactions

which we all experience in consuming successive units of a stock, we find that more units of any commodity will be bought if the price is lowered, less will be bought if the price is raised. Therefore if sellers wish to induce buyers to take more of their product, they must reduce its price. To what extent will depend on whether the demand for the good is elastic or rigid —whether, as in the case of luxuries, it increases very rapidly as price falls, or whether, as in the case of a necessary like bread, it fails to respond as readily to the pull of lower price.

Turning to the supply side, if consumers want more of any commodity, they must offer a higher price; if they want less, they will probably be able to force prices down. Here again, the extent of the change in price will depend on the nature of the industry, whether it is such as to involve increased cost per unit for an enlarged output, or constant cost, or decreased cost. Thus if consumers desire more wheat or coal or copper some or all of the additional units will be produced under less favorable cost conditions and a considerable increase in price will be necessary to coax the necessary supplies. In any case, if the market is an open one, a price will be established which will bring about an equilibrium or balancing of supply and demand. The amount demanded by the buyers at this price will just equal the amount offered by the seller at the same price. Everyone will be satisfied. If the price were lower, some consumers would not secure all they wanted at the low price; if it were higher some sellers would be left with stock on their hands. Price then at any one time serves to equate demand with the supply available in the market. Over a period of time it provides an *automatic indicator* for producers and dealers to follow. Rising prices attract capital, labor, or goods; falling prices are a sign of warning. This analysis assumes of course the active organizing agency of competition, the ceaseless striving of men after a maximum return to their exertions. We must, however, make the proper allowances for those cases where competition has given place to monopoly, and for the motivating power of patriotism, and the other social economic values which tend to counterbalance self-interest; but when all has been said and done, Adam Smith's familiar dictum remains unshaken, "It is not from the benevo-

lence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest." With relatively few exceptions, they best serve their own interest who serve ours best. The reward for success in anticipating and satisfying our wants is great, the penalty for failure is economic death.

Besides organising production and arranging for the geographical distribution of goods, price performs a very important function in regulating consumption and distributing the available supply evenly over a period of time. This can best be illustrated by considering the work of the speculators who are now being branded as criminals because they hold back goods for higher prices. A moment's consideration will show that these much-maligned individuals, while serving themselves, also render important service to the public. Our crops, for instance, are harvested in a few weeks each year, yet everyone will admit the desirability of distributing these crops as evenly as possible over the succeeding months until the next harvest. It is much less disagreeable to live on three-quarter's of one's usual quantity steadily throughout the year than to have the usual quantity for the first six months and only half the usual quota for the remainder of the year. Someone must therefore assume the risk, responsibility, and capital outlay involved in holding commodities in order to perform this important function. Whoever accepts this risk of price fluctuation, whether he be farmer or middleman or consumer, is a speculator. The better organized trades develop a specially selected and specially trained class of risk-takers and provide elaborate machinery to aid them in studying market conditions. These men are constantly appraising the various factors affecting supply and demand and their competition in buying or selling determines the price level which in turn governs the distribution of the crop and promotes a uniform consumption of the crop throughout the year. If the price is held too high during the following months, the crop is not used up fast enough and the "market breaks" during the following winter or spring. If the price is kept too low in the early months, too much of the year's supply is consumed and when this is realized, the price begins to soar, as it did in the

case of potatoes in the spring of 1917. Potatoes were sold at too low a price the preceding fall and by January 1, only about 30 per cent. of the United States' crop remained. As 15 per cent. of this remnant was in farmers' hands, the farmers were the chief speculators. The shrewder the speculators are in forecasting future prices, the more nearly will the daily market prices conform to that price which would promote a uniform consumption of the crop throughout the season. While there is undoubtedly a large amount of blind speculation or pure gambling by mere "hangers-on" of the business, the legitimate speculators perform their function with unusual efficiency, and over a period of years it is doubtful if their profits are more than enough to pay for the services performed. To take only one instance, Prof. Weld of Yale has found that those who held potatoes in half of the last 10 years lost money by so doing. Of course there is the danger that some big operator will "corner" the market or that a small group of dealers may get control of supply and illegitimately boost prices. But at this point we need only say that successful corners are exceptionally rare, that they can be effected only with the utmost difficulty, that their effects in the past have been only temporary and confined almost wholly to other speculators, and that the commercial penalty for unsuccessful corners is so severe as to be more deterrent than any legal penalty would be.

So much is an indispensable basis for any understanding of prices and the price system. For prices do constitute a system. Value and price are relative terms; many goods are substitutes for others; almost every good, on the supply side, has genetic relationships with other goods, having been made out of them or of the same materials or supplied by the same set of enterprisers; business competition, again, in seeking highest profits, is constantly changing the relative supply of commodities so as to bring about a balance on the basis of cost prices. Because of these and a myriad of other factors, the prices of all goods and services are knit together into a highly complex system, "a system infinitely flexible in detail yet stable in the essential balance of its relations, a system like a living organism in its ability to recover from the serious dis-

orders into which it periodically falls."* It is remarkable how little understood this price system is, yet no other institution so intimately reflects the myriad conditions which make up life,† or so profoundly determines the guidance of economic activity. Supplemented by pecuniary competition, the desire of men to 'make money," it organizes and coordinates our multifarious industrial activities, bringing together men and "jobs," capital and opportunities for investment, supply and demand for goods, in such a way as to satisfy our manifold, constantly fluctuating needs and whims with wonderful ease and regularity. The maintenance of our modern system of specialization or division of labor requires the continuous organization into a single coherent whole of a wide variety of services, materials and forces. This task of organization is a most delicate one, requiring careful measurement and nice adjustment. "This delicate adjustment of parts," to quote Prof. Hamilton, "has been made possible by the rise of the institution of pecuniary calculation, which assigns to the satisfaction of each desire, to the use of each raw material, to each service, to each good, its definite price. Its precision makes possible the maintenance of a highly exact and articulate organization of unlike parts in an industrial order. The prices which make it up constitute an organic system, not a mere aggregation of unrelated items, each having such ultimate connections with the others that the whole can best be represented by means of a vast intricate and tangled network."

We now know something of the way in which prices are determined, of the functions which they perform, and of the interaction of motives and forces which relate them to each other. We are therefore in a position to estimate the value of any criticisms of the present system and appraise the merits of any substitutes proposed. When, for instance, the President of a great American University says that the law of supply and demand has broken down "for the very simple reason that for every staple commodity the demand is greater than the

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*W. C. Mitchell, "Business Cycles," P. 31.

†W. H. Hamilton, "The Price System and Social Policy," in Journal of Political Economy, January, 1918, P. 41.

supply," he has failed to grasp the meaning of the law. What he is really troubled about is that it takes a higher price than the customary one to equate demand and supply. We have become accustomed to more or less stable prices for the chief staples. A sudden and extensive rise evokes a howl of rage. One of the most difficult things for a people to do is to revise its standard of living—downward. A nation will without a murmur give its sons to be crippled or killed but a doubling of the price of bread, a reduction of sugar purchases, and all the relatively small inconveniences which a rapidly rising price level brings home to every household, will be vigorously resisted with threats of strikes in vital industries and bitter cursing of speculator and profiteer. It was ever thus. Every war has brought its unusual rise of prices and each time the public has been wont to, and taught to, regard the rise as "unnatural, artificial, and wholly unjustifiable, being merely the wicked work of people who want to enrich themselves, and who are given power to do so, not by the economic conditions . . . but apparently by some absolutely direct and inexplicable interference of the devil."

The faintest acquaintance with the principles enunciated above should show the foolishness of such a belief. Take the present war for example. The supply of goods has been greatly decreased by the transfer of millions of men from productive to destructive pursuits, by the destruction of supplies through submarine and raider, by congestion and waste in transportation, by unfavorable weather for crops, by the increasing exhaustion of raw materials and the consequent necessity of pushing out to poorer and poorer sources of supply. On the other side war has brought insistent and increasing demand for many of our commodities, especially food and raw materials. This demand has been made effective, and has been tremendously increased, by war-time inflation or the abnormal increase of money and credit, thanks to a system of war finance which in some countries made too free use of the printing-press but which in most simply secured a large part of the necessary funds through credit loans from the banks rather than from the actual savings of the people. Canada's inflation, for instance, is in part simply a reflection of world-

wide inflation and in part a result of loaning to the Canadian and Imperial Governments for war purchases and to individuals to help them to subscribe to Government loans. Exploitation may have had some importance in particular instances, chiefly local, and panicky buying had undoubtedly more, but these are relatively minor factors. Scarcity, enlarged demand, and inflation, these are the three root causes of the present trouble, and the greatest of these is scarcity. High prices were inevitable if the fewer goods were to be equated with the increased desire and ability to buy goods. If we will have world-wars, we must pay for them. No war finance, not even the "Made in Germany" brand, can avoid the burden, or even pass the the greater part of it on to our grandchildren. One of the ways in which the largest class in all countries will have to suffer is by paying higher prices for its necessities. Rather naively, Royal Commissions after elaborate investigations have come to the conclusion that the worker's standard of living has in many cases been lowered. Could it well be otherwise!

Not only are high prices an inevitable result of war but they would seem at first sight at least to be the best possible correctives of the conditions which brought them about. On the one hand they are S.O.S. calls to producers all over the world to increase production. Thus the pressure of war demand drove the price of spelter or zinc from 5 cents to 27 cents a pound. The influence or rising prices, however, was soon reflected in the zinc-producing districts. Prospecting was stimulated, new mines were opened, smelters were enlarged and new ones built. Production increased so rapidly that prices have since fallen to below 8 cents, a figure which, considering higher costs, compares quite favorably with the prewar price. Thus the problem has worked itself out. Of course there are instances where supply is temporarily fixed and could not be affected by higher price but such cases are very rare. Again high prices are the most vivid way of bringing home to consumers the fact that a shortage exists, they are indeed the only real preceptors in the matter of economy and substitution. In these two ways high prices bring about their own cure; but they are a remedy, not without disadvantages,

for they tend to hit the poor with special severity and they may mean inflated profits for fortunate producers or dealers. However these defects may in part at least be corrected and in any case comparison has not to be made, as we shall see,with any ideal remedy.

The popular remedy is one which attacks the symptoms of the disease, rather than the cause. Soon after the outbreak of this war, as of most wars, governments were besieged with complaints against the rising cost of living. The blame was of course laid at the door of speculation, profiteering, exploitation by middlemen. To curb this wickedness, all that needed to be done, so the press told the public and the public told the government, was to fix maximum prices. Now it is conceivable that the State could fix prices with success. But certain conditions would have to be fulfilled. The State would have to understand thoroughly the nature of prices and the price system, and would have to assume the various functions with regard to production and consumption which the price system and competition have been shown to perform. Whether a single authority could be set up with wisdom enough to exercise the power with any certainty of beneficial results is doubtful, for the play and interaction of all the motives and considerations that determine prices and relate them to each other would seem to defy human calculation. History is full of unsuccessful attempts. The experience of Julian the Apostate, of Constantine, of Mediaeval Europe, of some American colonies during the Revolution, of Revolutionary France, goes to show that governmental regulation of prices usually results in aggravating the evils which it seeks to remedy. But an age of supermen, of super-organizers, may defy the teaching of history. Success is still conceivable. In the following paragraphs, we shall attempt to discover whether in the present war governments have been any more successful in realizing the nature of and executing the great task which popular clamor against high prices forced upon them.

The case for fixing prices is in large part merely the criticism of what Mr. Hoover calls "the specious arguments of the siren of high prices." The force that drives most Governments to adopt the policy is the popular cry that if prices rise,

the poor alone suffer. High prices, it may be, reduce consumption, but they reduce it through the methods of famine, throwing the greater part of the burden on the people of limited means. Money, if you like, is just a system of food or commodity tickets; your dollar bill is a blank ticket, enabling you to command the world—to the extent of one dollar. Unfortunately these tickets are unequally divided and as long as this is true, what is an inconvenience to the rich man may be a cruel hardship to the poor. But, on the other hand, the fact must be accepted that any remedy that materially reduces consumption must accomplish its object chiefly through the great body of consumers. The rich after all are relatively few in number and their consumption of the chief necessaries, such as bread, is individually very little greater than that of the masses of the people. Besides they are better able, and perhaps as a class more likely, to respond to a patriotic appeal for substitution of foods and readjustment of diet. Finally, the real point is whether the proposed alternative offers any better solution of the problem. Can the unequal incidence of high prices be remedied by any governmental legerdemain with prices?

Recent experience confirms the verdict of history that the moment a government attempts to fix maximum prices, it sets in motion forces which react to the injury of the poor even more than to the injury of the rich. The English handling of the sugar question is a case in point. As this is a commodity of which the supply was absolutely controlled by the government, this is usually cited as a successful instance of price regulation, but a Royal Commission reported last summer that if other necessaries were similarly controlled and distributed, the unrest would become very dangerous during the winter. Finding itself with only 75 per cent. of the usual importation, the Sugar Commission, instead of rationing the people or selling the diminished quantity for what it would fetch, simply fixed a price somewhat below the market level. At this price it turned the sugar over to the grocers in proportions in which the total was divided before the war and insisted on their distributing it equitably among their regular customers at corresponding prices. As businesses wax and wane, and as

an unexampled shifting of the English population had occurred since 1913, the grocers found it impossible to work out the principle strictly. They adopted instead what was perhaps the best course left open to them by giving away the sugar "with a pound of tea," "sometimes in the literal sense of that expression, but more often simply by being accommodating or otherwise, according as the would-be purchaser of sugar was in respect of other things a customer whom it was desirable to placate." The results were worse than if no attempt had been made to control prices.[1] For in the first place, if allowance is made for indirect payments and for the large amount of inconvenience and annoyance endured, the consumers as a whole paid just as much as they would have paid in an open market. And in the second place, unrestricted prices would have brought a more just distribution of the shortage. Under the scheme adopted, the restriction of supply fell almost wholly on the poor who were "choked off" by the grocers, and on those localities where the industrial population had grown most rapidly. Obviously the desire of the retailer to placate the rich would give the wealthy at least their usual advantage. The poor could seldom afford to spend a couple of shillings on other things for every pound of sugar bought and so were frequently refused any sugar at all. Food Controller Devonport steadily refused to force the grocers to sell because he realized that at the government price the sugar would not have gone round and the queue system of distribution would have resulted, first-comers getting all they asked for and late-comers getting none at all. Time and again during the present war the test of physical power which is involved in the queue system has been proved just as inequitable as that of money power and much more conducive to industrial unrest. The scandals of unequal distribution of sugar finally compelled the adoption of a system of rationing based on registered orders.

The defeat of other attempts to help the poor by price fixation has been brought about by simpler methods of evasion, usually by some consumers ignoring the fixed price and privately offering more. Instances of such evasion in every

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[1]Prof. Cannan, Economic Journal, Dec. 1917, p. 466.

country are legion. The present Food Controller of France compares himself to a gamekeeper surrounded by poachers and laments that "The tradespeople and middlemen have invented no end of tricks to evade my prescriptions, and this I blame for my present embarrassments. They have been, I might almost say, the greatest curse of this war." [2] But for conclusive evidence we must go to submissive, law-abiding Germany, and here the evidence is overpowering. "It is an interesting commentary on the psychology of a people," says a volume[3] recently put out by two experts of the United States' Food Administration," to realize that, despite patriotism and discipline, Germans of means never hesitated to circumvent the food laws in order to secure from the producing class foodstuffs whose sale was contrary to regulations. Despite constant appeal by the authorities that success in the war depended in part upon the maintenance of the food regulations, producers were always willing to break them, and so were the consumers of means." Or again, "Evasion was easy and constantly practised, the evasion taking the form of direct communication outside of the state channels of trade, between the producer in the country and the consumer of means in the city. . . The people of means could secure more than their share of dairy products, meats, fruits and vegetables through price manipulation and circumvention of the regulations that were impossible to the working classes. On the other hand, the classes of means could secure more than their legal share of flour and sugar because these could be hoarded, whereas hoarding was impossible to the poor because of lack of money. Under these circumstances, the natural trend of events worked to the advantage of the well-to-do classes and to the disadvantage of the poor." Professor Ashley tells us that so numerous were the violations of the bread regulations by the bakers "that in a great city like Frankfort the Municipal Council had to give up the whole of every Wednesday to such cases, until the Government conferred summary jurisdiction

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[2]Toronto Globe, Feb. 14, 1918.

[3]Kellogg and Taylor, The Food Problem, pp. 86-7.

on the Public Prosecutors." [1] Even under the present rationing system, Herr Michaelis himself admitted that bread tickets had been forged (chiefly by the the rich, of course) and illegally used in appalling numbers. In Munich, 50,000 more bread cards were issued than there were inhabitants.[2] Another indisputable proof of unjust distribution was the fact that while Germany had bread grains sufficient to have guaranteed a flour ration of 300 grams per capita, the ration was first fixed at 225 grams, then 220, and then as low as 175, though it was later restored to 220. This meant that the 20,000,000 industrial workers had to suffer dearly because the 25,000,000 agrarians consumed more than their pro rata of foodstuffs, fed a portion to domesticated animals, and sold to the rich in disregard of the regulations. Finally the steadily increasing severity of the penalties attached by law to the violations of official regulations bears eloquent testimony to the fact that the Germans are becoming a nation of law-breakers. This augurs well for the German people but not for the theory of maximum prices.

But evasion is not the greatest objection to fixing prices. The vital objection is that a maximum price, if it achieves its object of lowering the price below the market level, discourages production and thus accentuates the scarcity which is the root cause of the consumer's present trouble. As Mr. Hoover put it, "you find immediately when a maximum price is established that all of the consumers of the country who can open a chain directly with the producer at once do so, and they not only open a chain for their daily needs, but they proceed to hoard at once, and the phenomenon accompanying a maximum price . . . . has been the total disappearance of that commodity all the way from a fortnight to three months from the normal market, because those minority consumers who can reach the producer directly will absorb the whole supply and they will make their own bargains and often if they do make it they set up a cycle; and it has been an economic failure ex-

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[1] Quarterly Review, Oct. 1915, p. 461.

[2] The Spectator, April 14, 1917.

cept where there has been a club to enforce it."[3] Mr. Hoover was not thinking here of the permanent results which are even more serious. The chief mistake of the price fixers is to fail to realize the widely different costs of different producers and set a sort of average price, which may be fair enough for some producers but which is below the cost of those who are unfavorably situated. The latter curtail their production or drop out of business altogether. The nature of the industry is of importance in this connection. If you take a highly specialized manufacturing industry, price fixing is fairly feasible, because production is carried on in a few large factories specially designed and equipped for a narrow line of product, raw materials are obtained and products disposed of through well-defined channels, and cost-accounting is more or less highly developed. The manufacturer will find it very difficult to divert his energies to some other line and will, if necessary, run at a loss for a considerable length of time. But with agriculture it is entirely different. "Food production is carried on not by large companies but by multitudinous farmers; some large, but the majority small, who do not keep books, who can obtain their materials and dispose of their produce in all sorts of odd ways, and who in the normal course of their industry produce a score or more kinds of foodstuffs in the year and expand or contract one in favour of another as prices and rotations prompt. Limit the price of milk and the farmer can churn it into butter; limit butter prices and he can give you cheese; limit cheese prices and instead of dairy products he can give you meat; limit meat prices and he can put his land under potatoes; fix a price for potatoes and he can turn to the next, and the next, and the next kind of produce that is still 'free', until such time as his last resource is rounded up and he goes out of farming in sheer weariness and disgust. If low food prices in combination with optimal home production are considered imperative, nothing less than the bringing of

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[3]Hearing on Production and Conservation of Food Supplies before U.S. Senate Committee on Agriculture and Forestry, 65th Cong., 1st Sess., Part 4, pp. 377-8.

the farmers into the category of 'controlled firms' will suffice, and he would be a bold food controller who would essay that."[1]

But may it not be possible that during a great war the results of fixing prices will be less harmful than all economic experience would lead us to expect? Will not the wonderful patriotic motive which now exalts and purifies the actions of men counteract the compelling power of that self-interest which governs them almost entirely in times of peace? This is conceivable but unfortunately the evidence allows no such optimism. Paris fixed a maximum price for butter but only succeeded in driving butter away to localities where it could be sold for what the market would pay. Other maximum prices which the French Government fixed had the same results and after much discussion those for potatoes, milk, butter and cheese of all kinds were finally abolished. England found the same difficulty when Lord Devonport interfered with the price of milk and butter. The attempt of Germany to fix prices for grains was a regular "fiasco" and may be described in the words of Dr. Taylor,[2] Mr. Hoover's assistant:—

> The German agricultural classes regarded these prices, high as they are, as below the extraordinary costs of production in war time, and they have never equalled a normal crop in any one of them or an average of the normal crop. Of course, fertilizers were scarce, labor was very scarce, and all of the conditions were difficult, but the financial impulse was lacking.
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> They took from the farmer all his oats and half his barley; they took from him, theoretically, or could take from him all his wheat and rye, except certain portions left with him for his own family. But the relative prices tempted the farmer to sell barley as such and to feed the wheat and rye to his live stock. The farmer was requisitioned for half his barley and the other half of his barley left to him to do with as he pleased. He sold it and then turned around and fed wheat and rye to his stock instead of barley. The Government has each year discovered a difference of 1,000,000 or more tons of rye and wheat between the crop estimate and what they finally secured. In theory they confiscated those grains; in practice they could not. They did not have anyone to send to the farmer for the grain;

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[1]J. Hilton, Edin. Reveiw, July 1917, p. 46.

[2]Hearings before U.S. Senate Committee already referred to, Pt. 4, p. 426.

> they did not have the wagons to bring the grain from the farm. They have no large elevator systems in Germany and had no places to store the grain. All they could do was confiscate on paper. They took so much, and said, "We will get the rest of it in units of so much per month," and then at the end of the seventh or tenth month the man who came to get that month's unit found that the farmer had fed it to his live stock. What was to be done with the farmer? They could not fine or imprison him; he could not be penalized. They were helpless before the farmer. In other words, having failed to stimulate production by adequate encouragement, and having held the price of bread low, they defeated their own object in both directions, produced dissatisfaction with the producer, established little satisfaction with the consumer, and lost a large amount of human food that was diverted to the feeding of animals.

Again the handling of the meat problem is quite of a piece with this story of miscalculation. The facts have been made available by an article in the British Economic Journal,[1] which we shall freely draw upon in this paragraph. The German meat problem is primarily one of fodder which had been imported in enormous quantities before the war. Thus it first became acute in early months of 1915 when the potato famine forced the reduction of the ranks of "potato devourers" from over 25,000,000 to 16,500,000 head of swine. "In reply to the obvious question, What became of the corpses of these slaughtered millions? one has but to refer to the contemporary mushroom growth of meat preserving factories and to the numerous advertisements during the following summer, offering decayed sausage meat at low prices for foddering purposes, to realize that large numbers of capitalists were taking advantage of the situation to adapt themselves to a new and lucrative branch of industry." The rising meat prices brought forth a chorus of complaint in September and culminated in October in street riots and the familiar night-long queues outside closed market halls. To such events the Press and public responded with the usual insistent cry for maximum prices and, after the superficial and half-hearted action of the autho-

[1]Mary Stocks, "The Meat Problem in Germany," Economic Journal, June 1916.

rities in prescribing "meatless days," the desired measure was at last forthcoming, November 4, upon approved Teutonic lines. The immediate effect was reflected in the lament of the Kölnische Zeitung of November 16: "Our farmers are now withholding pigs as they withheld potatoes." The normal pig supply of 12,000 a day on the Berlin market dropped roughly to 5,000 in late November and to 3,000 or less in February. The usual forms of illegal evasion are recorded, "such, for example, as weight manipulation, the addition of bones, presents by stock dealers to the children of farmers, incidental fees, together with frank, unashamed demands by dealers to butchers, who dared not prosecute for fear of cutting themselves off from future supplies." Moreover, much of the above-mentioned depleted market supplies disappeared into the meat-preserving factories, for preserved meats could be stored for speculative purposes, "in preparation for the future statutory price increase which experience has taught German producers to regard as the reward of arbitrary withholding." After several tinkerings with the maximum price order, the authorities finally despaired of solving the meat problem by price regulation and substituted therefor the old conservative ideal of food control on the lines of organized production, the entire live stock trade being compulsorily syndicated in the hands of provincial organizations of the traders concerned. Parenthetically, it may be said that Germany's fodder problem will now be solved, if transportation can be organized, by the importation of unlimited amounts of sunflower meal and coarser grains from Russia.

Another illustration may be taken from the experience of the United States. The unprecedented prices to which soft coal had risen in the early part of 1917 led to tremendous efforts to increase supplies. Hundreds of new mines were opened and up till August the production of 1917 exceeded the extraordinary record of 1916 by an enormous margin. Output reached a climax in July. Then the price was fixed at $2 per ton at the pit's mouth. August saw a violent drop to a level which after a slight recovery in September was again reached in October. Car shortage was blamed for the decrease, but as a matter of fact this existed before as well as

after the new policy went into effect and according to Prof. Anderson[1] was responsible for only half of the reduced output between August and November 10. There seems little doubt but that the price-fixing order which by the way was revised upwards on October 27 and several times later must bear a large share of the responsibility for the coal famine of last winter. Factors which accentuated the scarcity were failure on the part of many consumers to lay in their usual stock because of Dr. Garfield's repeated assurance that sufficient coal would be forthcoming at the Government price, failure on the part of some mines to work their best veins or to pick over their coal, and failure on the part of the Government to fix the price of coke. Instead of selling three tons of coal at $2 a ton, it paid producers to convert them into two tons of coke which sold at $6 a ton.[2] This was just one of the complex inter-relations of prices which the Government failed to realize.

A special despatch from Vancouver to the Montreal *Star* of March 21 shows us that Canada can also furnish neat illustrations of this principle:

> Fishermen operating from this port, Victoria, Nanaimo and other coastal points, are tying up their boats as a result of the regulations and restrictions imposed upon them by the terms of the Order-in-Council recently passed for the purpose of stimulating the consumption of fish throughout Canada. The men contend that it is impossible for them to make a living at the rate set by the regulations. For several days past the fishermen have been tying up their boats as they came in, rolling up their gear, and have started out to hunt jobs in shipyards and other places where wages are high.

In fairness it should be said that there are possibly a few cases where the diminution in production has not been serious enough to counterbalance the saving in price to the consumer. The fixing of copper prices in the United States is probably such an instance, for the mines which were closed down by the 23½ cent price, though fairly numerous, contributed but an

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[1]Proceedings of Amer. Econ. Association, Dec. 1917.

[2]Unpopular Review, April-June, 1918.

insignficant part of the total production. On the other hand one must consider the damper given to prospecting for new sources of supply and the failure to provide to the utmost for the copper famine which competent observers predict in the next few years.

On the whole consumers as a class and particularly those of limited means find by bitter experience that the fixing of maximum prices aggravates rather than relieves the inevitable burden of war. What about the second main argument used by its advocates—the claim that it is necessary in order to stop "profiteering" and other devilish commercial practices of middlemen,which are supposed to be mainly responsible for the scarcity and the high prices? There is no doubt that suspicion of profiteering has been very widespread and in England at least has been one of the main causes of industrial unrest. Just what profiteering is, few people know and nobody dares to define. If it means securing control of available supplies, creating artificial scarcity, and thus boosting prices, it is highly reprehensible. But this has occurred to so small an extent that the effect on the general price movement has been insignificant. Doubtless there have been instances, chiefly local and on a small scale, but numerous investigations in several countries have hitherto been without results, even though the Commissions contained Labor and Socialist members. Besides there are remedies more effective than price-fixing.

If profiteering means storing up supplies in order to sell later at a higher price, it is difficult to see where the harm arises, for as we have already seen, speculation of this sort is a legitimate device for keeping consumption more equable than production. If too much is stored up or hoarded by a dealer in this way, the dealer loses his bet; price may be higher now but it will be much lower when the increased supply is eventually thrown on the market. There is much talk of destruction of part of the supply in such cases, but obviously unless a man is a monopolist it is foolish to destroy part of his property. The wholesale condemnation of speculation represents a sudden excess of righteousness for Canada over five years ago when every second or third man had sunk his money in Western town lots—the least defensible kind of speculation—; and

when it comes to hoarding, few housewives have the right to cast the first stone. Moreover, before a government forbids speculation and hoarding, it should recall to mind the parable of the five foolish virgins and then make sure that it is both able and willing to perform the necessary function which it is denying to private individuals.

Finally, if profiteering means simply taking advantage of the state of the market, i.e. of supply and demand conditions without illegitimate manoeuvring, it is undoubtedly true that it has been a source of inflated profits to fortunate producers and dealers. But is it wrong for a seller to take advantage of an increased demand for his goods? Is it right for a buyer to get all he can for his money and wrong for a seller to get all he can for his goods? Since all of us are both buyers and sellers, shall we have one rule of conduct when we are buyers and another when we are sellers? Suppose the seller did not take advantage of the market, would market price be lower or would the extra profit simply be diverted to another pocket through resale by the first purchaser to a more eager purchaser? In other words are the sellers responsible for high prices or is the cause the frantic scramble of the buyers for the available supply? Finally if resale did not take place and prices were actually getting below the market level what would be the effect on consumption and production? Would the existing abnormal conditions tend to be corrected? Such questions have only one answer. But, it will be asked with horror, do you justify the taking of a profit of 80 per cent. on the capital invested in a meat-packing plant—to quote a beloved Canadian example? In reply it may first be noted that the reduction of that profit to zero would have reduced the price of meat only to a very slight extent. In the second place, if there was no unfairness in the securing of the contracts, the policy of the company in taking the highest market price was best in its own interest and in that of the public. But that is far from saying that such huge profits should be left with the company, it is rather a case for such drastic taxation as has recently been announced.

But while profiteering in the objectionable sense has been a minor factor, the suspicion that it did exist had a great deal

of influence in driving governments to adopt the expedient of maximum prices. Has such government regulation had any greater success from this point of view? It is not necessary to multiply illustrations. Those already given showing the extent to which evasion has been practised suggest the answer. We can perhaps accept the conclusion of the two sympthetic observers already mentioned[1] that especially as regards perishable products, "speculation has not been checked" and "extortion has not been prevented." In the case of bread and sugar in Germany, greater success in their opinion was obtained, the middleman's margin being held down, thanks in the first case to a formula which made the price of bread per pound equal to the price of flour per pound, and in the second case to the complete governmental control of supply. But the proof of the violations of the bread regulations already adduced shows that even here the success obtained was far from perfect.

Before drawing final conclusions as to the actual working out of price fixing experiments, a few special cases may be given. What of England's recent experience? Providing any control of prices is permissible, Lord Rhondda's methods have been as careful and as scientific as they could possibly have been. On assuming office he stated his policy was "to fix the prices of those articles of prime necessity over which it was possible to obtain effective control at all stages from the producer down to the consumer." But as he was determined to avoid if possible a general system of food tickets or other detailed rationing, he realized the necessity of allowing producers and middlemen enough profit to ensure adequate supplies, and of setting prices high enough to check unnecessary consumption. Acting through skilled accountancy, therefore, he has tried to determine costs at every stage in the progress of the commodity from producer to consumer,and tofix price margins which would leave a sufficient incentive to the business man to further the work of food supply without allowing him to plunder the public. But careful as Lord Rhondda has been, he does not seem to have avoided the danger of tempting the dealer to withdraw supply from the market or to transfer his

[1]Kellogg and Taylor, Op. Cit., P. 84.

resources to unregulated or more favorably regulated trades. As of his predecessor it has been said of him: "As soon as he touches anything it disappears from the market; he interferes with one commodity and another hits him on the nose; everything he does has the most surprising results." Just one more illustration of the danger of tossing a monkey wrench into the delicately adjusted mechanism of the price system! To illustrate only from the meat problem, English farmers assert as a body that Rhondda's scale of meat prices has made it more profitable for the farmer to slaughter his cattle in an immature state, and this assertion seems to have met no serious refutation. The Central Chamber of Agriculture declares that the fixed prices for bacon and pigs do not cover the cost of production and "will stop the breeding and rearing of pigs."[2] Mr. Clynes, a Labor Member of Parliament and Parliamentary Secretary to the Ministry of Food, confessed that "the price of meat had been reduced to so low a figure that they found retail butchers' shops were closing because the butchers could not pay their way at the prices charged, and they had to consider a small increase so that the men engaged in distributing meat might have a reasonable wage for their services to the country."[3] Last December a government campaign was in full swing urging voluntary reduction of meat consumption to 2 pounds per week, and Lord Rhondda was insisting there was little or no diminution in the flocks and herds in the country. But within a few weeks, the meat queue made its appearance and the voluntary ration was compulsorily halved. Obviously maximum prices had as much to do as the submarine with the sudden change. Finally Lord Rhondda has been forced to give up his original policy and embark on the elaborate policy of compulsory rationing—so far, only for meat, margarine, tea, butter, fats and sugar. Perhaps this had to come, but we may be sure that price fixing brought it sooner and left scantier supplies to be divided when it did come.

The friends of government control of prices would expect much from the experience of the Australian states, which

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[2]Morning Post, Dec. 6, 1917.

[3]Quoted in The Spectator, Jan. 12, 1918.

have long been the home of "advanced" legislation and which since the war have pushed state regulation to quite new limits. According to a competent Australian economist,[4] himself a member of a price-fixing board, the success of the measures taken to keep prices down has been the subject of marked controversy. In Victoria and West Australia price-fixing was abandoned after a trial of twelve months. Though in other states the laws were taken more seriously, Mr. Wilkinson concludes that on the whole such price-fixing "had little effect on the cost of living, though in some instances it resulted in cheaper commodities, as long as original supplies lasted." The last clause has a world of meaning! A statistical examination of the rise in prices showed a greater rise in regulated Sydney and Brisbane than in Melbourne and Adelaide where there was little regulation. On the other hand a favorable verdict is passed upon federal regulation and on most of the various attempts of the state or municipal governments to engage directly in commercial enterprises, e.g. Sydney's fish shops.

High claims have been made for the success of the attempt by the Governments of Canada and the United States to fix the price of wheat. It has been said for instance that in the absence of restrictions flour would have gone to $25 a barrel. In spite of initial hoarding by farmers, enormous supplies of wheat and flour have been secured for export to the Allies. Public speculation is almost a memory and the crop, it is claimed, has been distributed more evenly than ever before, without terminal accumulations and consequent storage costs and delays. It is true also that when the Canadian Board of Grain Supervisors met recently to fix a price for the next crop, there was practically no criticism of the work of the Board and of the fixing of prices. There have been some instances of evasion; inferior grades of wheat have been bought at the price of the best grades, and in some instances the U.S. Government has had to enforce its threats of commandeering grain of farm-

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[4]Wilkinson, State Regulation or Prices in Australia. The writer has had to depend on a lengthy review in the New York Evening Post, April 11, 1918.

ers who were unnecessarily holding it back. But such cases have been relatively insignificant.

It is however too early to give any ultimate judgment. For one thing we must wait to see if the present supplies of wheat last until the new harvest. We know that the U.S. has recently fallen far short of its promised monthly shipments to the Allies—partly, but not wholly, because of tonnage scarcity. We know also that the supply of wheat in both countries is only a fraction of the normal reserve at this time of year, and that Mr. Hoover is now urging a great reduction, indeed a halving of ordinary domestic consumption. Evidently the appeals to patriotism and all the "push" behind Mr.Hoover's or Mr. Hanna's conservation and substitution program have not been as effective in eliminating waste and checking consumption as slightly higher prices would have been. Anyone familiar with rural Ontario at the present time knows to what extent wheat is being fed to live stock;[1] to expect anything else is to put too great a strain on the benevolence of the farmer who finds that the present fixed price for wheat, when compared with the current unregulated prices for oats and barley makes it the cheapest food for finishing hogs and feeding poultry.

But a more important test will be the magnitude of this year's harvests. Undoubtedly there will be an increased production of wheat in both countries for weather conditions have been excellent, and farmers will as a class make some response to the insistent appeal that has been made to them, for there is more than patriotism in wheat at $2.20. But the majority of farmers will not be able to resist the much louder appeal of $4.50 flax, $1.90 barley, $2.50 rye, and 95c. oats, and into these the major part of the surplus effort will go. The newspapers tell us of the estimated increase in wheat acreage in the West; they fail to tell us of the immensely greater prospective increases in the coarser grains. Would it not have been better to have let the market take its own course? If prices had risen somewhat higher than they have been in recent months, they would at any rate have been more eloquent advo-

[1]Note frequent letters to the Toronto Globe.

cates of greater production than all the printer's ink that has been wasted, and no premium would have been placed on the production of other grains. The extraordinary production of wheat that would have resulted would probably have solved the famine problem of the Allies and brought lower prices than we shall have to pay next winter.

But would $5 wheat and $25 flour have been tolerable? This argument against high prices that it puts bread almost beyond the reach of the masses no longer has the same force, now that Mr. Hoover tells us all we must reduce our consumption by one half and substitute other cereals. It is impossible to say what the uncontrolled price might have been but it seems probable that the above alarming estimates are exaggerated. While wheat did rise one day last May to $3.05 in Winnipeg and $3.45 in Chicago, the explanation is not far to seek. The significance of a series of unprecedented events had just dawned upon all those interested in grain. What with heavy losses through submarines, the failure of the crops in Argentine and Australia, discouraging reports from England and France, record winter killing of winter wheat acreage in the U.S. and bad weather in Canada, the world actually faced the prospect of famine. Alarming advice from Washington initiated a continent-wide campaign of flour hoarding by American consumers and this in turn was reflected in a furious competition of the millers with the already competing Allied buyers. This latter point, the lack of a unified authority, has until recently been a grave defect of Allied purchasing policy; at one time, for example, there were 30 or 40 Allied buyers, so Mr. Hoover told the U.S. Senate, furiously competing for the purchase of the bean supply of Brazil. But the immediate cause of the greater part of last May's sky-rocketing of prices was due to the fact that the Royal Wheat Commission, with the best intentions but with slight insight into the methods of the grain trade, had "cornered" the market; in other words, the market for the better grades had been oversold and the short sellers were forced at almost any cost to buy wheat to cover their sales. The public of course blamed the speculators for the high prices, not realizing that practically all the speculation was on the selling side of the market and would there-

fore tend to drive prices down. The machinery which had been built up by a long process of commercial evolution and which was run at the moment by an admittedly able group of men, had just failed to rise to the supreme occasion but it had not been entirely discredited. Would Government control have done as well? One wonders what would have happened if earlier in the year, before anybody could have foreseen that series of disastrous events, a price-fixing body had established a rigid fixed price. Was it not better that prices should have been allowed *gradually* to adapt themselves to the abnormal situation from the first moment that a few of the shrewdest dealers began guessing that all was not well with the wheat supply? Would it not be preferable to-day to have a more elastic system of control, one which would daily adapt itself to the changing situation, one which would automatically bring consumption and production into equilibrium, and one which would not disturb with untoward consequences the delicately adjusted relations of the price system? Control would of course be necessary, especially control of exports to prevent supplies seeping out in too great quantities to the neutral nations, such control also as would bring the hitherto competing Allied buyers under a single authority with power to allot purchases in accordance with needs. This might be supplemented by such oversight of speculative trades as the officials of the grain exchanges voluntarily introduced last summer—it should be noted that by the first week in July the price had been brought down to a range of $2.20 to $2.30 in Winnipeg, without any government control. Monthly reports of holdings, profits, etc., might also be required from all licensed grain dealers, and corrected if necessary by inspection of books.

We must conclude that the overwhelming weight of evidence is against a policy of fixing maximum prices. While ostensibly an easy solution for the problems of profiteering and the distress of the consumer, it fails to accomplish the objects sought and it has a multitude of unforeseen consequences which are frequently worse than the original evils. It fails to check waste and unnecessary consumption; it drives the commodity from the market and discourages production;

it throws out of balance the sensitive mechanism of the price system; it involves endless frauds, with a general lowering of the moral standards of the community. It therefore aggravates the conditions which it seeks to remedy and if pursued far enough, it will inevitably drive the Government to adopt two other drastic measures. For arbitrary prices determined with no reference to competition must be supplemented by arbitrary regulation of production and consumption. The State, that is to say, must control production and direct the production of the different commodities, either by a system of compulsory labor or by some graduated scale of rewards which would lure the requisite proportion of laborers to the different industries. Further consumption would have to be controlled by an elaborate system of rationing. Only by so doing would the State ensure the performance of the various functions ordinarily performed by the competitive price system which has now been discarded, in whole or in part. as the governor of industry. Most Governments fail to understand those functions—so automatically and unconsciously are they performed at present—or to see the necessity of assuming them. If they do take up the burden, there is at least a chance of success, though the task is so huge and so complicated that it might seem to require something like omniscience on the part of a single authority. For instance, all the available evidence goes to show that Germany, in spite of her wonderfully efficient bureaucracy, has made at least a partial failure of rationing, and as for production she has regarded any comprehensive measure of control as impossible even for her.

In Canada, at any rate, the adoption of these measures is entirely impracticable. Control of production in either of the two ways suggested is obviously impossible. Rationing is likewise impracticable because the population is scattered so thinly over so large an area and because the system would require a civil service and police staff disproportionate to the total of the population. Mr. Hoover's conclusion on this point for the U. S. is even truer of Canada; figuring that it would require more than 1,750,000 people, he says, "rationing is a hopeless suggestion and one which can never under any possible conception be imposed on the American

people." We may therefore congratulate ourselves that our own authorities have placed production before price and with a few exceptions have steadily refused to adopt a policy of fixing mamimum prices.

But to deny the efficacy of what seems the simplest solution is not to deny the desirability of the State concerning itself in other ways with the problem which war has created. The conclusion reached above was not based on any doctrinaire belief in laissez-faire but on a study of the facts of experience. Other forms of State interference or State guidance can undoubtedly be justified by the same test, by the ability to contribute in actual practice to a greater measure of social welfare. Space permits only the barest mention of a few of these. They are all based on the principle that the causes rather than the symptoms of the disease must be attacked. Thus since the root cause of the present trouble in the Northern Hemisphere is scarcity, Governments should bend every effort to augment supplies. In the case of food, for instance, organization of labor supply; aid to producers in securing seed, fertilizers, tractors and other machinery; removal of artificial obstacles, wherever possible; proper direction as to probable trend of future demand; education of producers as to best methods; provision of timely and accurate market information; direction of substitution in food production—such things are indispensable. Most people recognize the necessity of some fundamental reorganization of our productive resources. Where labor, materials, capital, etc., are painfully limited, every possible care should be taken to direct them solely to the production of essentials and,indeed,only those with the highest food values. The food administration should take all practicable steps to facilitate such a reorganization. It is conceivable that, if the supply of any commodity is of supreme importance and if conditions are so uncertain as to provide little or no incentive to producers, the guarantee of a minimum price may be necessary, as has been given for wheat in the United States, and for potatoes and the grains in England. But there are grave dangers of serious financial losses to the State and of creating a vested interest which will resist its own removal.

On the demand side also, much can be done. Correct information and sound advice will do much to prevent panicky buying and can be effectively supplemented by organization of buyers, encouraged and directed by the Government. Wasteful consumption can be reduced, substitution of less needed or more nutritive foods can be secured, by elaborate publicity and advertising campaigns. Much has been done in this field already, though mistakes have been made through lack of an elementary knowledge of psychology and economics. Man is not a glorified test-tube, nor should he be advised to consume high-priced commodities which represent a wasteful working up of our potential food resources. In these days when the largest part of the commercial supply of poultry comes no longer from the barnyard as a cheap by-product, the average man wisely refuses to accept the $2.00 chicken as a regular substitute for his $1.00 three pound beef roast. To demand chickens and thus divert labor to a very wasteful process of converting food potentialities into actual food can only be justified on the optimistic assumption that the war is to be won out of existing stocks of food. But a common sense campaign for economy, substitution, and wise consumption could do a great deal to stretch supplies and check that panicky buying which now tends to give the sellers of certain commodities a quasi-monopoly position.

Finally, to meet that mixture of good and evil which is condemned wholesale as "profiteering," the most effective remedy is drastic taxation of excess profits, taxation far more drastic and pervasive than we have yet attempted. To this end, registration and licensing of middlemen of every kind and for all important commodities; periodical reports as to supplies, costs price margins, and profits; and power to inspect books, if necessary, will be indispensable if "tab" is to be kept on trade conditions and the taxation program made effective. Mere publicity will do a great deal to keep dealers within bounds. But if any instances of objectionable profiteering, such as manipulation or cornering of the market, do occur, these can easily be discovered by experts, and revocation of licenses, commandeering of supplies or other appropriate penalties should follow. Profiteering in the ordinary sense, i.e. tak-

ing advantage of market conditions, would merely result in excessive profits and these would almost wholly come back to the public in the form of taxes. Greater revenue from taxation would mean that the Government would not need to raise so much by credit loans. Less inflation would therefore result and hence one of the chief reasons for high prices would be removed. A policy of war finance based, not on inflation but on drastic taxation, chiefly of incomes, is long overdue in all countries.

If it did actually happen that the price of the chief necessaries rose to a level absolutely beyond the reach of a certain class in the nation, a case would be made out for more radical remedies—perhaps higher pension or separation allowances, enforcement of a minimum wage high enough to make possible the purchase of sufficient necessaries, or even a Government subsidy. Some of these would of course be attended by dangers. The raising of wages would have to be confined to a limited class, else a vicious circle would result—higher wages leading to higher prices, higher prices to higher wages, and so on. Again such a policy as the English bread policy, whereby, chiefly for political reasons, bread is sold below cost, and the difference is met out of the Treasury, involves the State in heavy expenditure and will probably encourage rather than check the consumption of the subsidized product. The case for should be clearly proved. Rising prices should not be considered apart from rising wages. To what extent do steadier employment and higher wages make up for higher prices? Not wholly, we must admit, but the following quotation from the organ of the British Fabian Socialists is significant:[1]

"It is literally true that there were at all times more people hungry in England in the years of peace and prosperity that preceded the war than there are now in the fourth year of unprecedented conflict and expenditure—more infants perishing for lack of milk, more children found at school insufficiently nourished, more adults slowly starving to death, more

[1]New Statesman, Feb. 2, 1918, p. 418.

unfortunate and friendless aged passing silently out of life from sheer lack of food and warmth. Far fewer families in the British Isles failed to get not only a full but even an extravagant Christmas dinner in 1917 than in 1913."

This statement, which is corroborated by organs representing such different angles of social sympathy as *The Nation* and *The Spectator,* gives one a better perspective, and reminds us that the evil of unequal and inadequate incomes is a peace problem as well as a war problem.

W. C. CLARK.